

# Greenhouse gas emission allowance trading scheme of the Community

2008/0013(COD) - 17/12/2008 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 610 votes to 60, with 29 abstentions, a legislative resolution on the proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading system of the Community.

The report had been tabled for consideration in plenary by Avril DOYLE (EPP-ED, IE), on behalf of the Committee on Environment, Public Health and Food Safety.

The amendments ? adopted in 1st reading of the codecision procedure ? are the result of a compromise between Parliament and Council. The proposal to send the report back to the committee was rejected by 514 votes to 118, with 24 abstentions.

The main elements of the compromise are as follows:

**Purpose:** under the compromise, the Directive provides for the reductions of greenhouse gas emissions to be increased so as to contribute to the levels of reductions that are considered scientifically necessary to avoid dangerous climate change. It also lays down provisions for assessing and implementing a stricter EU reduction commitment exceeding 20%, to be applied upon the approval by the Community of an international agreement leading to emissions reductions exceeding those required by the Directive (as reflected in the 30% commitment as endorsed by the Spring 2007 European Council).

**Integration of maritime shipping and aviation into the EU ETS:** all sectors of the economy should contribute to achieving these emission reductions, including international maritime shipping and aviation. In the event that no international agreement including international maritime emissions in its reduction targets has been approved by the Member States, the Commission should make a proposal to include international maritime emissions, according to harmonised modalities, in the Community reduction commitment with the aim of its entry into force by 2013.

**Greenhouse gas emissions permits:** Member States shall ensure that, from 1 January 2005, no installation undertakes any activity listed in Annex I resulting in emissions specified in relation to that activity unless its operator holds a permit issued by a competent authority, or the installation is excluded from the Community scheme. The operator shall inform the competent authority of any changes planned in the nature or functioning, or an extension or a significant reduction of capacity, of the installation which may require updating of the greenhouse gas emissions permit.

**Community-wide quantity of allowances:** the Community-wide quantity of allowances issued each year starting in 2013 shall decrease in a linear manner beginning from the mid-point of the period 2008 to 2012. The Commission shall, by 30 June 2010, publish the absolute Community-wide quantity of allowances for 2013. It shall review the linear factor and submit a proposal, where appropriate, to the Council and the European Parliament as from 2020, with a view to having a decision by 2025.

**Auctioning of allowances:** from 2013 onwards, Member States shall auction all allowances which are not allocated free of charge in accordance with the Directive. By 31 December 2010, the Commission shall determine and publish an estimated amount of allowances to be auctioned. The total quantity of allowances to be auctioned by each Member State shall be composed as follows:

- 88% of the total quantity of allowances to be auctioned being distributed amongst Member States in shares that are identical to the share of verified emissions under the Community scheme for 2005 or the average of the period 2005-2007, whichever one is the highest, of the Member State concerned;
- 10% of the total quantity of allowances to be auctioned being distributed amongst certain Member States for the purpose of solidarity and growth within the Community;
- 2% of the total quantity of allowances to be auctioned being distributed amongst Member States whose greenhouse gas emissions in 2005 were at least 20% below their emissions in their levels in the base year applicable to them under the Kyoto Protocol.

At least 50% of the revenues generated from the auctioning of allowances should be used for one or more of the following:

- to reduce greenhouse gas emissions, including by contributing to the Global Energy Efficiency and Renewable Energy Fund and to the Adaptation Fund as operationalised by UNFCCC COP 14 in Poznan, to adapt to the impacts of climate change and to fund research and development as well as demonstration projects for reducing emissions and adaptation, including participation in initiatives within the framework of the European Strategic Energy Technology Plan and the European Technology Platforms;
- to develop renewable energies to meet the commitment of the Community to using 20% renewable energies by 2020, as well as to develop other technologies contributing to the transition to a safe and sustainable low-carbon economy and to help meet the commitment of the Community to increase energy efficiency by 20% by 2020;
- for measures to avoid deforestation and increase afforestation and reforestation in developing countries that have ratified the future international agreement; to transfer technologies and to facilitate adaptation to the adverse effects of climate change in these countries;
- for forestry sequestration in the EU;
- for the environmentally safe capture and geological storage of carbon dioxide, in particular from solid fossil fuel power stations and a range of industrial sectors and sub-sectors, including in third countries;
- to encourage a shift to low emission and public forms of transport;
- to finance research and development in energy efficiency and clean technologies in the sectors covered by the scope of the directive;
- for measures such as those intended to increase energy efficiency and insulation or to provide financial support in order to address social aspects in lower and middle income households.

By 30 June 2010, the Commission shall adopt a Regulation on timing, administration and other aspects of auctioning to ensure that it is conducted in an open, transparent, harmonised and non-discriminatory manner. To this end, the process should be predictable, in particular as regards to the timing and sequencing of auctions and the estimated volumes of allowances to be made available.

Auctions shall be designed to ensure that:

- operators, and in particular any small and medium size enterprises covered by the Community scheme, have full, fair and equitable access;
- all participants have access to the same information at the same time and that participants do not undermine the operation of the auction;
- the organisation and participation in auctions is cost-efficient and undue administrative costs are avoided;
- access to allowances is granted for small emitters.

Each year, the Commission shall submit a report to the Council and the European Parliament on the functioning of the carbon market, including the implementation of the auctions, liquidity and the volumes traded.

Moreover, the Commission shall, by 31 December 2010, examine whether the market for emissions allowances is sufficiently protected from insider dealing and market manipulation and if appropriate bring forward proposals to ensure it.

Free allowances in the manufacturing sector: full auctioning should be gradually introduced in the manufacturing sector, which will be granted 80% of its emission allowances for free in 2013, which will be reduced to 30% by 2020 in order to reach full auctioning in 2027 (and not 2020 as proposed by the Commission and MEPs). A large derogation has been introduced for sectors at significant risk of 'carbon leakage', in other words the relocation of production to third countries with a less strict climate policy, leading to increased CO<sub>2</sub> emissions by these countries. Until an international agreement is concluded, these sectors may receive up to 100% of free allowances until 2020, under certain conditions.

Free allocation for modernisation of electricity generation: Member States may give a transitional free allocation to installations operating by 31 December 2008 or to installations for which the investment process was physically initiated by the same date for electricity production if they meet certain conditions listed in the Directive. In 2013, the total transitional free allocation shall not exceed 70% of the annual average verified emissions in 2005-2007 from such generators for the amount corresponding to the gross final national consumption of the Member State concerned and shall gradually decrease resulting in no free allocation in 2020.

Transitional Community-wide rules for harmonised free allocation: the Commission shall, by 31 December 2010, adopt Community wide and fully-harmonised implementing measures for allocating the allowances. These measures shall, to the extent feasible, determine Community-wide ex ante benchmarks so as to ensure that allocation takes place in a manner that gives incentives for reductions in greenhouse gas emissions and energy efficient techniques, by taking account of the most efficient techniques, substitutes, alternative production processes, high efficiency cogeneration, efficient energy recovery of waste gases, use of biomass and capture and storage of carbon dioxide, where such facilities are available, and shall not give incentives to increase emissions.

Electricity generators may receive free allowances for district heating and cooling and for heat and cooling produced through high efficiency cogeneration as defined by Directive 2004/8/EC in the event that such heat produced by installations in other sectors were to be given free allocations, in order to avoid distortions of competition.

Member States may also adopt financial measures in favour of sectors or sub-sectors determined to be exposed to a significant risk of carbon leakage due to costs relating to greenhouse gas emissions passed on in electricity prices, in order to compensate for those costs and where this is in accordance with state aid rules applicable and to be adopted in this area.

Projects for the environmentally-safe capture and storage of carbon dioxide: up to 300 million allowances in the new entrants reserve shall be available until 31 December 2015 to help stimulate the construction and operation of up to 12 commercial demonstration projects that are aiming at the environmentally safe capture and geological storage of carbon dioxide as well as the demonstration projects of innovative renewable energy technologies, in the territory of the EU.

Procedures for unilateral inclusion of additional activities and gases: from 2008, Member States may apply emission allowance trading in accordance with this Directive to activities and to greenhouse gases which are not listed in Annex I, provided that inclusion of such activities and greenhouse gases is approved by the Commission, taking into account all relevant criteria, in particular effects on the internal market, potential distortions of competition, the environmental integrity of the scheme and reliability of the planned monitoring and reporting system.

Exclusion of small installations: Member States may exclude, from the Community scheme, installations which have reported emissions to the competent authority of less than 25 000 tonnes of carbon dioxide equivalent and, where they carry out combustion activities, have a rated thermal input below 35 MW, excluding emissions from biomass, in each of the previous 3 years, and which are subject to measures that will achieve an equivalent contribution to emission reductions, if the Member State concerned complies with certain conditions.

Adjustments applicable upon the approval of a future international agreement on climate change: at the latest 3 months after the signature by the Community of an international agreement on climate change leading, by 2020, to mandatory reductions of greenhouse gas emissions exceeding 20% compared to 1990 levels, the Commission shall submit a report assessing, in particular, the following elements:

- the nature of the measures agreed upon in the framework of the international negotiations as well as the commitments made by other developed countries to comparable emission reductions to the EU's and the commitments made by economically more advanced developing countries to contributing adequately according to their responsibilities and respective capabilities;
- options required at the EU level, in order to move to the more ambitious 30% reduction target in a balanced, transparent and equitable way, taking into account work under the Kyoto Protocol first commitment period;
- the EU manufacturing industries competitiveness in the context of carbon leakage risks;
- the impact of the international agreement on other EU economic sectors;
- the impact on the EU agriculture sector, including carbon leakage risks;
- appropriate modalities for including emissions and removals related to land use, land use change and forestry in the Community;
- afforestation, reforestation, avoided deforestation and forest degradation in third countries in the event of the establishment of any internationally recognised system in this context;
- additional community policies and measures in view of the Community's and the Member States' greenhouse gas reduction commitments.

On the basis of this report, the Commission shall, as appropriate, submit a legislative proposal to the European Parliament and to the Council amending the present directive pursuant to paragraph 1, with a view to its entry into force upon the approval by the Community of the international agreement and in view of the emissions reduction commitment to be implemented under that agreement.

